SEP 04 1984

GA1.13:AFMD-84-53

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Examination Of The Pennsylvania Avenue Development Corporation's Financial Statements For The Year Ended September 30, 1983

GAO examined the financial statements of the Pennsylvania Avenue Development Corporation for the year ended September 30, 1983. The examination was made in accordance with generally accepted government auditing standards.

In GAO's opinion, the financial statements present fairly the financial position of the Corporation as of September 30, 1983, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles.

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GAO/AFMD-84-53
JUNE 22, 1984

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-199096

To the President of the Senate and the
Speaker of the House of Representatives

This report transmits our opinion on the Pennsylvania Avenue Development Corporation's financial statements for the year ended September 30, 1983. We made our examination pursuant to the provisions of 31 U.S.C. 9105 and in accordance with generally accepted government auditing standards.

The Corporation is responsible for the preparation and implementation of a development plan for certain areas adjacent to Pennsylvania Avenue between the Capitol and the White House. To ensure that the plan be carried out, Congress vested the Corporation with the power of eminent domain and authority to regulate both private and public development, to undertake construction activities, and to enter into a wide variety of real estate and other commercial transactions.

The Corporation included unaudited financial statements in its 1983 annual report which differ from the financial statements presented in this report. The principal difference between the two is that in its annual report the Corporation recognized appropriations as revenue when received instead of recognizing them as revenue only as they were expended. As a result, net income in the Corporation's annual report is overstated to the extent that appropriations are not expended, or by about $8 million.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Board of Directors and the Director, Pennsylvania Avenue Development Corporation.

Charles A. Bowsher

Comptroller General
of the United States

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-199096

To the Director
Pennsylvania Avenue Development
Corporation

We have examined the consolidated Balance Sheet of the Pennsylvania Avenue Development Corporation as of September 30, 1983, and the related consolidated statements of Revenue and Expense, Changes in Cumulative Results of Operations and Changes in Financial Position for the year then ended. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Pennsylvania Avenue Development Corporation as of September 30, 1983, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. The financial statements of the Pennsylvania Avenue Development Corporation for the year ended September 30, 1982, were not audited by us and, accordingly, we do not express an opinion on them.

Charles A. Bowsher

Comptroller General
of the United States

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APPENDIX I

REPORT ON INTERNAL ACCOUNTING CONTROLS

As part of our examination of the Pennsylvania Avenue Development Corporation's financial statements for the year ended September 30, 1983, we made a study and evaluation of the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

--expenditure cycle,
--financial reporting cycle,
--revenue cycle, and
--treasury cycle.

Our study included all of the control categories listed above except that we did not evaluate the accounting controls over the treasury cycle and financial reporting cycle because it was more efficient to expand substantive audit tests. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Corporation's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of the Pennsylvania Avenue Development Corporation is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Pennsylvania Avenue Development Corporation taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

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APPENDIX II

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the Pennsylvania Avenue Development Corporation for the year ended September 30, 1983. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances.

In our opinion, the Pennsylvania Avenue Development Corporation complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected the Corporation's financial statements.

Nothing came to our attention in connection with our examination that caused us to believe that the corporation was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

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APPENDIX III

Pennsylvania Avenu
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Assets	1983	1982 Unaudited
Cash (Note 3)	$ 22,596,885.96	$ 27,601,144.02
Accounts Receivable (Note 4)	167,828.66	123,665.20
Property and Equipment:		
Land	87,243,813.11	78,028,206.23
Construction in Progress (Note 5)	56,040,555.41	52,196,292.14
Equipment, Furniture & Fixtures, Net (Note 6)	120,731.98	66,496.77
Leasehold Improvements, Net (Note 7)	753,857.84	980,572.41
Total Property & Equipment	$144,158,958.34	$131,271,567.55
Other Assets:		
Rent Deferral (Note 2)	$ 1,099,710.48	$ 1,099,710.48
Interest Deferral (Note 2)	346,914.39	91,885.17
Total Other Assets	$ 1,446,624.87	$ 1,191,595.65
Total Assets	$168,370,297.83	$160,187,972.42

The accompanying notes are an integral part of these financial statements.

Development Corporation
d Balance Sheet
r 30, 1983 and 1982

Liabilities and Investment of U.S. Government	1983	1982 Unaudited
Accounts Payable (Note 8)	$ 788,069.87	$ 609,780.66
Notes Payable to U. S. Treasury (Note 9)	56,147,667.16	57,081,424.26
Accrued Interest Payable (Note 9)	12,190,231.16	9,870,156.17
Accrued Annual Leave	65,536.97	53,886.41
Other Liabilities	1,667.07	-0-
Total Liabilities	$69,193,172.23	$67,615,247.50
Investment of U.S. Government		
Unexpended Appropriations (Note 10)	$22,034,248.56	$28,214,772.35
Invested Capital (Note 11)	79,974,678.94	65,732,137.24
Donations and Other Items	280,696.90	147,950.53
Cumulative Results of Operations	(3,112,498.80)	(1,522,135.20)
Total Investment of U.S. Governmment	$99,177,125.60	$92,572,724.92
Total Liabilities and Investment	$168,370,297.83	$160,187,972.42

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APPENDIX III

Pennsylvania Avenue Development Corporation
Consolidated Statement of Revenue and Expense
Fiscal Years Ended September 30, 1983 and 1982

	1983	1982 Unaudited
Revenue and Expended Appropriations		
Revenue		
Sale of Land (Note 12)	$ 2,076,921.47	$ 3,551,938.27
Rental Income (Note 13)	4,536,645.49	6,127,605.22
Interest Income (Note 14)	603,308.95	91,885.17
Miscellaneous	51,989.62	177,491.56
Total Revenue	$ 7,268,865.53	$ 9,948,920.22
Expended Appropriations	2,459,290.14	2,905,832.58
Total Revenue and Expended Appropriations	$ 9,728,155.67	$12,854,752.80
Expenses		
Cost of Land Sold (Note 12)	$ 1,808,803.55	$ 3,507,062.7?
Interest Expense	6,184,131.01	5,878,801.95
Operating Expenses-Lansburgh's (Note 15)	418,946.61	1,402,411.90
Personnel Compensation and Benefits	1,360,207.25	1,522,373.03
Property Management Expense (Note 16)	484,864.37	276,200.68
Administrative Expenses (Note 17)	500,444.60	539,225.70
Depreciation Expense	368,717.01	417,620.96
Miscellaneous Expenses	192,404.87	798,797.81
Total Expenses	$11,318,519.27	$14,342,494.75
Net Income/(Loss)	$(1,590,363.60)	$(1,487,741.95)

The accompanying notes are an integral part of these financial statements.

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APPENDIX III

Pennsylvania Avenue Development Corporation
Consolidated Statement of Changes in Cumulative Results of Operations
Fiscal Years Ended September 30, 1983 and 1982

	1983	1982 Unaudited
Cumulative Results of Operations at Start of Year	$(1,522,135.20)	$(34,393.25)
Net Income/(Loss)	(1,590,363.60)	(1,487,741.95)
Cumulative Results of Operations at End of Year	$(3,112,498.80)	$(1,522,135.20)

The accompanying notes are an integral part of these financial statements.

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APPENDIX III

Pennsylvania Avenue Development Corporation
Consolidated Statement of Changes in Financial Position
Fiscal Years Ended September 30, 1983 and 1982

	1983	1982 Unaudited
Funds Provided by:		
Net Income (Loss)	$(1,590,363.60)	$(1,487,741.95)
Borrowings from U.S. Treasury	-0-	5,034,250.00
Congressional Appropriations	11,100,000.00	15,926,000.00
Less: Expended Appropriations	(2,459,290.14)	(2,905,832.58)
Add: Expenses Not Requiring Funds:		
Depreciation	368,717.01	417,620.96
Other	62,217.00	163.75
Increase in Interest Payable	9,060,106.06	7,755,990.61
Increase in Other Liabilities	1,667.07	-0-
Increase in Accounts Payable	178,289.21	404,355.14
Other	(2,069.30)	51,200.14
Total Funds Provided	$16,719,273.31	$25,196,006.07
Funds Applied to:		
Increase in Construction in Progress	$ 3,844,263.27	$16,880,127.17
Payment of Interest	6,740,031.07	1,608,626.38
Purchase of Equipment	96,237.65	17,535.69
Payment of Principal	933,757.10	26,995.25
Refund to U.S. Treasury	494,442.72	314,323.00
Increase in Leasehold Improvements	100,000.00	1,305,620.00
Increase in Rent and Interest Deferral	255,029.22	291,885.15
Increase in Accounts Receivable	44,163.46	(1,684,420.49)
Increase in Land	9,215,606.88	11,266,324.65
Other	-0-	(281,725.10)
Total Funds Applied	$21,723,531.37	$29,745,291.70
Increase (Decrease) in Funds	$(5,004,258.06)	$(4,549,285.63)

The accompanying notes are an integral part of these financial statements.

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APPENDIX III

Pennsylvania Avenue Development Corporation
Notes to Financial Statements
As of September 30, 1983 and September 30, 1982

(1) Organization

The Pennsylvania Avenue Development Corporation (PADC), a wholly owned Government Corporation, was created by the Congress under the Pennsylvania Avenue Development Corporation Act of 1972. The Act provided for the preparation and implementation of a development plan for certain areas adjacent to Pennsylvania Avenue between the Capitol and the White House.

Construction and development is a joint venture between the Federal Government and private industry. The Corporation is financing a program of extensive public improvements and expanded pedestrian amenities. To facilitate private development, the Corporation buys and assembles properties in the area and leases or sells them back to private investors for development according to the Pennsylvania Avenue Plan. A private investor may also purchase land directly from a land owner and develop it in accordance with the Plan.

Pennsylvania Avenue Development Corporation has four separate funds for its operations.

- The Salaries and Expense Fund uses an annual appropriation to pay salaries and the administrative expenses of the Corporation.

- The Land Acquisition and Development Fund is a revolving fund that provides the Corporation with resources with which to assist prospective developers in their efforts to assemble real estate for development projects consistent with the development plan. The Corporation may borrow money from the U.S. Treasury. Such borrowings are repaid to the Treasury with revenues from selling or leasing of acquired property to private developers.

- The Public Development Fund uses multi-year appropriations to pay for public development activities and projects. These public service costs include: public improvements, historic preservation, and relocation assistance to displaced tenants of buildings purchased by the Corporation.

- The Gifts and Donations Fund accounts for contributions from individuals, corporations, and private organizations to the Corporation and the related disbursements.

(2) Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include all funds of Pennsylvania Avenue Development Corporation. Inter-fund and inter-operational transactions and balances have been eliminated.

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Basis of Accounting - Assets, liabilities, revenue and expenses are recognized on the accrual basis of accounting following generally accepted accounting principles.

Accounting for Interest Costs - Interest charges incurred on borrowings from the U.S. Treasury are considered a cost of acquiring land and are, therefore, capitalized under the asset account "land". When a property achieves its final development and is substantially ready for sale, the interest cost is considered an operating expense of the accounting period.

Land - The Land Account includes charges for direct land purchase costs, appraisals, feasibility studies, title searches, insurance, fees, surveys, property owner reimbursements and demolition of buildings. The Corporation considers buildings acquired through land purchases to have no economic value as the buildings will be demolished and, therefore, the buildings are not recorded as a separate asset.

Rent Deferral - The Corporation allows developers to defer 50% of current rent charges on leased land during construction and the first year of operation following the construction period upon compliance with the Affirmative Action policies adopted by the Corporation's Board of Directors.

Pensions - The Pennsylvania Avenue Development Corporation employees are covered by the Civil Service Retirement and Disability Fund. Consequently, PADC has the responsibility for withholding 7 percent of each employee's salary and for contributing 7 percent to the plan. PADC's matching amounts were $86,702.64 and $94,947.64 in 1983 and 1982, respectively.

(3) Cash

Cash as of September 30, 1983 and 1982, is comprised of the following:

Cash	1983	1982 Unaudited
Appropriation Fund Balances with U.S. Treasury	$22,542,747.54	$27,465,223.37
Donations	5,827.33	135,863.51
Revolving Fund	48,311.09	57.14
Total	$22,596,885.96	$27,601,144.02

(4) Accounts Receivable

Accounts Receivable as of September 30, 1983 and 1982, is comprised of the following:

Accounts Receivable	1983	1982 Unaudited
Government	$155,679.40	$114,926.70
Non-Government	12,149.26	8,738.50
Total	$167,828.66	$123,665.20

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(5) Construction in Progress

Construction in Progress represents capital improvements to streets, parks, and other public properties located within the area being developed. Once Public Development projects are completed they are reclassified as land.

(6) Equipment, Furniture, and Fixtures

Equipment, Furniture, and Fixtures as of September 30, 1983 and 1982, is as follows:

	1983			1982 Unaudited
	Acquisition Value	Accumulated Depreciation	Net Book Value	Net Book Value
Equipment, Furniture, and Fixtures	$258,577.30	$(137,845.32)	$120,731.98	$66,496.77

(7) Leasehold Improvements

Leasehold Improvements as of September 30, 1983 and 1982, is as follows:

	1983			1982 Unaudited
	Acquisition Value	Accumulated Depreciation	Net Book Value	Net Book Value
Leasehold Improvements	$1,435,182.82	$(681,324.98)	$753,857.84	$980,572.41

(8) Accounts Payable

Accounts Payable as of September 30, 1983 and 1982, is comprised of the following:

Accounts Payable	1983	1982 Unaudited
Government	$ 7,266.34	$ 3,077.29
Non-Government	780,803.53	606,703.37
Total	$788,069.87	$609,780.66

(9) Notes and Interest Payable to the U.S. Treasury

At September 30, 1983 and 1982, $5,682,409.66 and $24,325,757.51, respectively, of principal and interest was due to Treasury within one year. However, the Corporation has the option of extending the due date of principal and interest up to a maximum of 40 years.

At the end of Fiscal Year 1983, PADC had borrowed funds from the U.S. Treasury totaling $67,511,000.61. The Corporation had repaid $11,363,333.45 of this amount to the U.S. Treasury, leaving a balance of outstanding principal as of September 30, 1983 of $56,147,667.16. Following is a schedule of the outstanding loans, date of the loan, interest rate, and accrued interest on the loan as of September 30, 1983.

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Loans from U.S. Treasury as of September 30, 1983

Loan Number	Date of Loan or Extension*	Principal	Interest Rate %	Accrued Interest
7	3-21-80*	$ 1,988,000.90	14.795	$ 1,300,290.72
8	4-20-80*	104,500.00	12.008	51,697.96
10	5-31-80*	58,000.00	10.421	23,397.75
11	6-12-80*	4,750,000.00	10.285	1,865,834.98
12	12-1-80*	50,000.00	12.369	20,255.65
13	1-24-81*	32,600.00	12.047	12,028.53
14	1-25-81*	1,150,000.00	12.052	424,657.80
15	2-2-81*	1,487,580.00	12.143	547,842.27
17	4-9-81*	10,030,000.00	12.693	3,573,179.45
18	4-12-81*	200,000.00	12.730	70,682.31
20	6-13-81*	25,410.00	13.211	8,700.06
21	6-29-81*	185,150.00	12.942	60,604.33
22	7-20-81*	4,102,000.00	13.275	1,340,913.19
23	8-17-81*	112,700.00	13.887	37,176.01
24	8-29-81*	2,536,180.00	14.112	836,303.36
25	9-19-81*	1,415,000.00	14.528	466,328.09
26	2-26-82*	884,948.00	14.208	216,320.46
27	2-28-82*	937,345.00	14.192	227,952.72
28	3-21-82*	320,997.00	13.558	71,262.21
29	3-31-82*	541,000.00	13.540	117,483.62
31	4-28-82*	162,391.68	13.426	33,049.18
32	5-15-82*	276,210.80	13.229	53,408.63
34	6-3-82*	810,000.00	13.250	150,552.20
35	6-12-82*	818,592.31	13.250	149,116.99
36	9-15-82*	1,277,000.00	13.125	180,906.08
37	9-23-82*	131,336.00	13.125	18,177.84
38	9-26-82*	74,000.00	13.125	10,151.73
39	11-24-82*	238,272.84	11.375	23,546.06
43	4-9-83*	100,000.00	10.625	5,051.22
44	4-9-83*	1,718,895.49	10.625	86,823.52
45	4-9-83*	2,117,928.99	10.625	106,981.44
46	4-10-83*	1,087,000.00	10.625	54,591.28
48	7-24-83*	682,797.00	10.875	13,795.86
49	9-11-83*	1,487,850.00	11.750	9,075.50
50	9-17-83*	2,501,628.00	11.750	10,440.56
51	9-18-83*	809,172.00	11.750	3,117.30
52	9-24-83*	1,410,000.00	11.750	2,715.98
53	9-28-83*	1,815,904.07	11.750	1,165.94
54	9-29-83*	2,683,027.08	11.750	861.35
55	9-3-82	2,182,750.00	12.875	1,643.71
56	9-28-82	2,851,500.00	12.875	2,147.32
Total		$56,147,667.16		$12,190,231.16

(10) Unexpended Appropriations

Unexpended Appropriations as of September 30, 1983 and 1982, was comprised of the following:

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Unexpended Appropriations	1983	1982 Unaudited
Unobligated	$ 7,336,168.30	$15,159,649.84
Undelivered Orders	14,698,080.26	13,055,122.51
Total	$22,034,248.56	$28,214,772.35

(11) Invested Capital

Invested Capital as of September 30, 1983 and 1982, was derived from the following:

Invested Capital	1983	1982 Unaudited
Appropriations for Land and Land Improvements	$79,921,050.77	$65,721,631.03
Appropriations for Equipment	53,628.17	10,506.21
Total	$79,974,678.94	$65,732,137,24

(12) Sale of Land

During Fiscal Years 1983 and 1982, the Corporation sold the following properties:

1983

Property	Sales Price	Cost	Gain/(Loss) on Sale
Lot 800, Square 460	$ 893,420.80	$ 832,658.03	$ 60,762.77
Alley in Square 254	455,750.00	-0-	455,750.00
Lots 802 and 803, Square 460	727,750.67	976,145.52	(248,394.85)
Total	$2,076,921.47	$1,808,803.55	$268,117.92

1982

Property	Sales Price	Cost	Gain/(Loss) on Sale
Lot 19, Square 348	$ 990,143.94	$ 958,822.17	$31,321.77
Lots 802 and 810, Square 322	2,561,794.33	2,548,240.55	13,553.78
Total	$3,551,938.27	$3,507,062.72	$44,875.55

(13) Rental Income

Rental Income was generated from long-term leasing of PADC properties to developers, short-term leasing of PADC properties which have not been redeveloped and leasing of the Lansburgh's Building to the D.C. Government. Rental Income for Fiscal Years 1983 and 1982 was derived from the following:

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Rental Income	1983	1982 Unaudited
Government	$1,505,811.50	$3,138,516.00
Non-Government	3,030,833.99	2,989,089.22
Total	$4,536,645.49	$6,127,605.22

(14) Interest Income

The Corporation earns interest on the rent developers are allowed to defer and, in accordance with an agreement with the U.S. Treasury, on its daily cash balance at Treasury in the Land Acquisition Fund. Interest Income for Fiscal Years 1983 and 1982 was as follows:

Interest Income	1983	1982 Unaudited
On Daily Cash Balance at U.S. Treasury	$348,279.73	$ -0-
On Rent Deferred	255,029.22	91,885.17
Total	$603,308.95	$91,885.17

(15) Operating Expenses - Lansburgh's

The Corporation leases the former Lansburgh's Department Store to the D.C. Government and records the gross annual rent and expenses associated with the lease on its books. The D.C. Government is allowed credit for the cost of certain repairs, maintenance, operating expenses, and capital improvements associated with the lease and compensates PADC in the amount of the net lease.

(16) Property Management Expense

The Corporation had under contract during Fiscal Years 1983 and 1982 the services of TDC Management Corporation to manage PADC's owned real properties that have not been redeveloped. TDC collects the rent and pays the expenses associated with these properties and forwards the proceeds to PADC. In return for these management services, the Corporation pays TDC a fixed fee. In addition, the Corporation incurred other property management expenses which were associated with the various parks and other public improvements owned by the Corporation.

Property Management Expense	1983	1982 Unaudited
Expenses Paid by TDC	$100,739.14	$ 85,826.44
Property Management Fee Paid to TDC	224,469.79	168,029.75
Other Property Management Expenses	159,655.44	22,344.49
Total	$484,864.37	$276,200.68

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(17) Administrative Expenses

Administrative Expenses for Fiscal Years 1983 and 1982 is comprised of the following:

Administrative Expenses	1983	1982 Unaudited
Rent, Communications, and Utilities	$188,688.59	$ 25,446.82
Supplies and Materials	31,195.26	251,548.63
Other Services	280,560.75	262,230.25
Total	$500,444.60	$539,225.70

(18) Related Parties

In addition to the controls established by basic Government corporation control laws (31 U.S.C. 9101 through 9109), PADC is subject to management oversight by the Director of the Office of Management and Budget. Such oversight could affect PADC's financial position or operating results in a manner that differs from those that might have been obtained if PADC were autonomous.

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